(UBS)

A few simple steps to help manage uncertainty

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It is possible—though not CIO's expectation—that this pullback could grow into a full-fledged bear market, with stocks falling more than 20% from their last all-time high.

Bear markets are painful, but they are rarely damaging to your portfolio unless you are forced to sell during the market decline. If you do not sell during the drawdown, your portfolio should not suffer any bear market damage that would hurt its ability to recover quickly.

Here are five actions to help manage your portfolio during uncertain times:

- **Protect yourself with a “buffer”**

During past bear markets, diversified portfolios have tended to recover fully from their losses within about 3-5 years. Even when markets seem calm, you should be mindful of your expected portfolio withdrawals during this “danger zone” time period. Specifically, if you have spending needs in the next 3-5 years, you can protect yourself against the risk of bear market damage by building a Liquidity strategy portfolio with resources (cash, bonds, and borrowing capacity) that are dedicated to meet these needs.

During a market drawdown, tapping into your Liquidity strategy resources—rather than selling your long-term assets and thus locking in otherwise-temporary losses—can help you to boost your portfolio's return potential. This is especially true if you have a short-term spending goal—such as a quarterly tax payment—that would otherwise require you to realize capital gains taxes from selling a portion of your portfolio.

- **Rebalance and position tactically**

During the most recent sell-off in US stocks, we've seen relative outperformance from other asset classes. For example, even as NASDAQ has fallen about 2% year to date, we've seen a 3% total return from bonds, a nearly 10% rally in international developed market stocks, and an 11% rally in gold prices. After these divergent returns, it's likely that your portfolio's asset allocation is no longer where it started at the beginning of the year. We would recommend that you rebalance back to your target allocation.

In addition to rebalancing, you should consider tactical adjustments that will help you mitigate downside risks. For example, gold and silver can help you to manage geopolitical risks; structured investments can help you to tap into an equity market rebound while incorporating a level of capital protection; and an allocation to hedge funds can help your portfolio navigate volatile markets.

- **Harvest tax losses**

If you have unrealized capital losses in your portfolio today, talk with your financial advisor about realizing them promptly. Markets tend to go higher over time, and losses tend to be short-lived, so the best way to implement tax-loss harvesting is to make small trades in the portfolio throughout the year as opportunities present themselves.

- **Partial Roth conversion**

A Roth conversion involves transferring funds from your pre-tax Traditional IRA or 401(k) into a Roth IRA or Roth 401(k). You will need to pay income taxes on the converted pretax amounts—including both contributions and earnings—but your Roth account investments will grow tax-free from that point, and your smaller Traditional IRA/401(k) balance will mean less taxable income from future RMDs.

Market drawdowns are an opportunity to implement a Roth conversion at a lower cost, and the balance that you convert will enjoy tax-free growth as markets begin to recover. The best time to implement a Roth conversion is during a year when you have a lower-than-usual level of taxable income, such as your early retirement years.

To determine whether this is a good time to implement a partial Roth conversion—and how much you may want to convert—we recommend speaking with your financial advisor and your tax advisor.

- **Embrace flexibility**

If you can temporarily reduce or postpone some of your spending needs during a market drawdown—or tap into your borrowing capacity to avoid the need to sell assets (and realize capital gains taxes) to meet your spending needs—it will allow you to keep more of your portfolio invested and thus enhance your portfolio's ability to benefit from a market rebound. As we noted recently in **The potential role of borrowing in a financial plan**, balanced portfolios have historically outperformed borrowing costs on a fairly consistent basis.

To learn more, visit **ubs.com/bearmarketguidebook**.

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** Time frames may vary. Strategies are subject to individual client goals, objectives, and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.*